

## Monopolistic Competition and Oligopoly Sample Test Questions

### Textbook Chapter 13

1. A monopolistically competitive firm is like a *monopoly* firm insofar as
  - a. Both face perfectly elastic demand
  - b. Both earn an economic profit in the long run
  - c. Both have marginal revenue curves that lie below their demand curves
  - d. Neither is protected by high barriers to entry
2. A monopolistically competitive firm is like a *perfect competitive* firm insofar as
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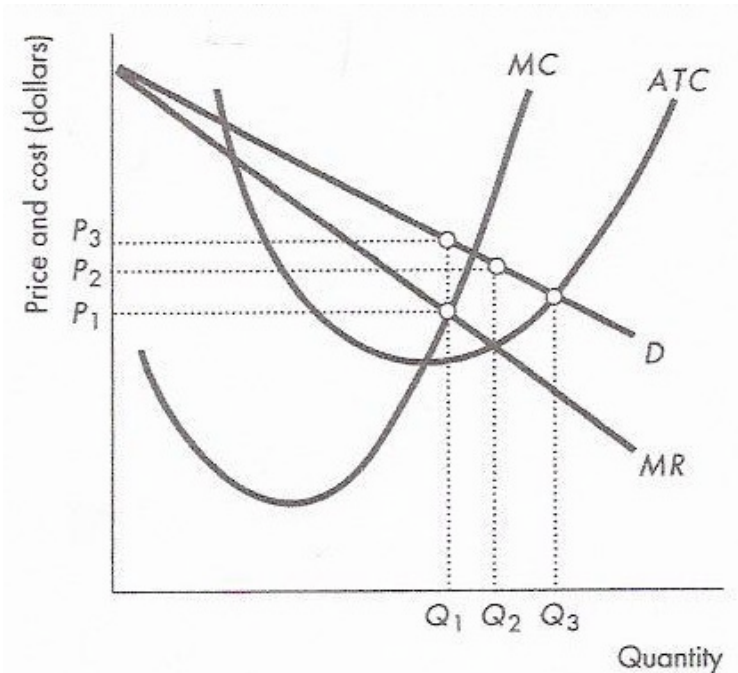
Firms A and B are in a duopoly game, so they can either comply with a cartel agreement or cheat on the agreement. The cartel agreement calls for each firm to boost its price and restrict the amount it produces. Use the payoff matrix below to answer questions 3-5.

		A's strategies	
		Cheat	Comply
B's strategies	Cheat	\$0	-\$1 million
	Comply	\$3 million	\$2 million

3. If firm A cheats on the cartel and firm B complies with the agreement, firm A's profit is
  - a. \$3 million
  - b. \$2 million
  - c. 0
  - d. -\$1 million
4. If this game is only played once,
  - a. Both firms A and B will cheat
  - b. Firm A will cheat and firm B will not cheat
  - c. Firm A will not cheat and firm B will cheat
  - d. Neither firm A nor firm B will cheat

5. The equilibrium in the previous question is called a
  - a. Credible strategy equilibrium
  - b. Nash equilibrium
  - c. Duopoly Equilibrium
  - d. Cooperative Equilibrium
  
6. A monopolistically competitive firm has excess capacity because in the
  - a. Short run  $MR=MC$
  - b. Short run the firm does not produce at the minimum of average cost
  - c. Long run because the firm does not produce at the minimum of average cost
  - d. Long run the firm earns an economic profit

Use the diagram to answer questions 7-9.



7. What price does the firm charge?
  - a.  $P_1$
  - b.  $P_2$
  - c.  $P_3$
  - d. None of the above
  
8. What type of profit or loss is the firm earning?
  - a. An economic profit
  - b. A normal profit
  - c. An economic loss
  - d. An accounting loss
  
9. In the long run given the firm's situation,
  - a. New firms will enter, and each existing firm's demand decreases
  - b. New firms will enter, and each existing firm's demand increases
  - c. Existing firms will leave, and each remaining firm's demand decreases
  - d. Existing firms will leave, and each remaining firm's demand increases

10. Product differentiation,
  - a. Means that monopolistically competitive firms can compete on quality and marketing
  - b. Occurs when a firm makes a product slightly different than its competition
  - c. Makes the firm's demand curve downward sloping
  - d. All of the above are true
  
11. Because an oligopoly has a small number of firms,
  - a. Each can act as a monopoly
  - b. The firms are interdependent
  - c. The firms may legally form a cartel
  - d. The HHI for the industry is small
  
12. The firm that has a kinked demand curve assumes that, if it raises its price, \_\_\_\_\_ of its competitors will raise their prices and that, if it lowers its price \_\_\_\_\_ of its competitors will lower their prices.
  - a. All; all
  - b. None; all
  - c. All; none
  - d. None; none
  
13. In the dominant firm model of oligopoly, the large firm acts like
  - a. An oligopolist
  - b. A monopolist
  - c. A monopolistic competitor
  - d. A perfect competitor
  
14. Monopolistically competitive firms constantly develop new products in effort to
  - a. Make the demand for their product more elastic
  - b. Increase the demand for their product
  - c. Increase the marginal cost of their product
  - d. None of the above answers are correct
  
15. One way in which monopolistic competition differs from oligopoly is that
  - a. There are no barriers to entry in oligopoly
  - b. All oligopoly firms earn zero economic profit in the long run
  - c. Strategic intervention between firms rarely occurs in oligopoly
  - d. In oligopoly markets, there are a few sellers.